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SUBJECT: UKRAINE: MYKOLAYIV -- RUNNING ON ISSUES BUT
FEARFUL OF FRAUD

REF: A. KYIV 2428

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Classified By: Political Counselor Kent Logsdon for reasons 1.4(b,d)

11. (SBU) Summary: The southern industrial city of Mykolayiv wrestles with a number of local issues revolving around the question of who will control the city's economic assets. Controversy centers in particular on ownership of the Black Sea Shipyard, currently in the hands of Russian businessmen, the Churkin brothers, and one of the three shipyards that make Mykolayiv Ukraine's shipbuilding center. (Russian businessman Oleg Derepaska also owns Mykolayiv Alumina Works, which produces 80% of Ukraine's alumina output.) In the run-up to the September 30 parliamentary elections, however, Bloc Yuliya Tymoshenko's local campaign head hopes to narrow Party of Regions' commanding lead by stressing Regions' failure to raise the local standard of living and, in conversations with us, ominously hinted that Regions was in collusion with Ukrainian and Russian oligarchs to ensure their economic dominance in the district. For its part, Regions will stress its record while in power, especially efforts at the national level to alleviate the impact of natural disasters (a severe drought, floods, a hail storm, and landslide). In contrast to our soundings in other regional centers (reftels), both political groupings stressed their concerns regarding the potential for election fraud (an Embassy observer team will be deployed to the oblast). The Committee of Voters of Ukraine's representative cited examples of party operatives' attempts to bribe officials and voters or otherwise manipulate results. Opinions differed on the reasons why President Yushchenko recently reappointed a previous governor, Oleksiy Harkusha, a member of the Lytvyn Bloc and widely suspected of committing wide-scale fraud during the 2004 presidential election, with no one offering a conclusive rationale for the move. End summary.

12. (U) We visited Mykolayiv (often also transcribed as "Nikolaev" from the Russian spelling) September 12 to gauge political attitudes and preparations for the September 30 parliamentary elections. We met with Committee of Voters of Ukraine (CVU) District head Tymur Mykhailovsky; and, from the Party of Regions, Parliament (Verkhovna Rada) Deputy Volodymyr Falko, district (oblast) branch deputy chairman Vyacheslav Rukomanov, and Oblast Council member Oleksandr Smirnov; and Bloc Yuliya Tymoshenko (BYuT) Verkhovna Rada Deputy Roman Zabzalyuk. Both Regions and BYuT seemed well-funded in Mykolayiv, with the BYuT party branch occupying a separate, two-story building with a good-sized conference room and Regions in several sizable offices in a larger office building.

A Ship-building Center

¶3. (U) Mykolayiv Oblast is sandwiched between Odesa and Kherson on the Black Sea coast between the Crimean Peninsula and Romania. Mykolayiv city lies 85 miles from Odesa (two hours by car) and 40 miles from Kherson, the nearest large cities. Mykolayiv Oblast has 1.3 million people, with a half million resident in Mykolayiv city. The city, founded in 1789 as a Russian shipyard and naval base, continues to be an important shipbuilding center, producing half of Ukraine's shipbuilding output, and, like neighboring Sevastopol, was a militarily sensitive, "closed" city until independence.

Although a major Black Sea port, perhaps second to Odesa in importance, the city lies 40 miles from the Black Sea, along the estuary of the Southern Buh river. Mykolayiv city has three major shipbuilders: the Black Sea Shipyard ("Chornomorsky"), 61 Komunars Shipyard, and "Damen Shipyards Okean," in which Dutch firm Damen Shipyards Group has a 78% stake. (The only Russian Navy aircraft carrier currently in commission, the Admiral Kuznetsov, was built in Mykolayiv.) Firms located in the oblast also produce 90% of Ukraine's gas turbines and Mykolayiv Alumina Works (owned by Russian businessman Oleg Derepaska) produces 80% of its alumina, the basic feedstock for aluminum production. Zoria and Mashproekt manufacture multipurpose gas turbines to power maritime vessels, pressurize natural gas pipelines, and for electric power generation. Pervomaisky Works and Dizelmash produce diesel engines and generators. The Shiroky Lan military base is also located in the oblast.

¶4. (U) Western-oriented guide books, often dismissive of Ukraine's Soviet-era industrial cities, treat Mykolayiv harshly. The Lonely Planet guide completely ignores the city, while the more comprehensive Bradt travel guide begins its entry with the observation, "Over half a million people

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call the city . . . home, and if you come this way, you'll wonder why." It adds, "Now Mykolayiv holds the title for Ukraine's hard-drug capital and all the problems that go with it." Our Consular Section observes that the city ranks among the top sources of "mail-order" brides in Ukraine, along with neighboring Odesa and Kherson, suggesting that young women in Mykolayiv find the outlook for a future in the oblast to be bleak. In our brief visit, however, we found that Mykolayiv city presented an attractive, well-kempt appearance, lying among rolling hills along the Southern Buh and Inhul rivers. Moreover, an English-language teacher at the local university said her students were studying English with the hope of working in the mail-order bride business as translators and guides, but, with close family ties, were themselves uninterested in using their qualifications to seek employment in Kyiv or finding a foreign husband.

A Regions Stronghold

¶5. (U) The Party of Regions enjoys a commanding position in the oblast and city, a fact that our contacts of all political stripes acknowledged. The issue for the elections was not whether Regions would take the majority of votes, but who would be in second and third place and by what percentage of the vote. (In the 2006 parliamentary elections, Regions garnered 50.34% of the vote, BYuT had 11.89%, and Our Ukraine, 5.59%, in Mykolayiv oblast.)

The 120 seats of the oblast council are divided as follows (with percentage of votes received in the elections in parentheses following):

Regions: 53 seats (32%)
BYuT: 18 seats (11%)
Vitrenko bloc: 14 seats (8%)
Lytvyn bloc: 11 seats (6%)
CPU: 7 seats (4%)
Our Ukraine: 6 seats (4%)
SPU: 6 seats (4%)

Green Party: 5 seats (3%)

Regions hold half of the 90 seats in the city council:

Regions: 45 seats

BYuT: 11

Vitrenko bloc: 8

Green Party: 6

"Mykolayiv People for (Mayor) Volodymyr Chaika": 6

CPU: 5

"Liberal-Socialist Mykolayiv": 5

Independent: 4

¶6. (U) BYuT's Zabzalyuk said some polling results indicated that nationally, Regions would get 33-35%, BYuT would get 17-20%, and OU-PSD would get up to 15%. While Lytvyn Bloc would not make the 3% threshold needed to get into the Rada, Communist Party support could increase and rise to 7-8%. He opined that Socialist Party voters were as likely to switch to OU-PSD or BYuT as Regions, due to Regions' failure to live up to its campaign promises. The more objective Mykhailovsky from CVU, however, painted a different picture. Party of Regions could repeat its 2006 record by garnering at least 50%, and perhaps 60%, of the vote. Regions itself was aiming for 75%. Mykhailovsky suggested BYuT would get only 5-10% in the oblast; the Communists, 5%; OU-PSD, 3-4%; and Socialists, 2-3%. He opined that, if there were no fraud, Lytvyn Bloc could get 4%. Surprisingly, Regions' Falko admitted that BYuT had been running hard in the oblast and could increase its presence somewhat.

The Governor's Role

¶7. (SBU) A major issue on the local level, President Yushchenko issued two decrees July 10 to transfer then Mykolayiv governor Oleksandr Sadykov to the position of National Security and Defense Council Deputy Secretary and replace him with Oleksiy Harkusha as acting governor, who had previously been Mykolayiv governor from 1998 to the start of ¶2005. Mysterious, Harkusha at the time of his appointment was an oblast deputy from the Lytvyn Bloc and, during the 2004 presidential election, was strongly suspected of manipulating the voting to favor Yanukovych's presidential candidacy. BYuT's Zabzalyuk highlighted Harkusha's misuse of local police forces to detain at least 30 political opponents daily. Local observers allege that Harkusha abused his previous position as governor to direct business to Agro-Export, the oblast's largest grain trader. Due to past

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actions against them, Harkusha also was unlikely to get along with Oblast Council Chairman Tetyana Demchenko and the well-regarded Mykolayiv Mayor Volodymyr Chaika. Although the Cabinet of Ministers refused to confirm his appointment, Harkusha subsequently attempted to relieve the current deputy governors, appointing a police general who headed the Ministry of Interior oblast office in 2001-2005 as First Deputy Governor, and to remove eight of the 19 district (rayon) heads.

¶8. (C) BYuT's Zabzalyuk said Harkusha was a vestige of the old system, noting that Harkusha had been a Communist Party sub-district head during Soviet times, and argued that a new generation of politicians, born in the 1960s and later, needed to take control to bring Ukraine fully into Europe. At the same time, Harkusha was an experienced and cautious politician, who was unlikely to repeat the excesses of the 2004 presidential election. Zabzalyuk said Yuliya Tymoshenko had written a letter to President Yushchenko, requesting that he not make appointments of similar officials with an unsavory past to other governorships before the parliamentary elections. Regions' Falko said some of Harkusha's decisions indicated that he was trying to erode support for the Party of Regions, which had been more than 50% in the last election, but he did not focus on the governor's role. CVU's

Mykhailovsky said Harkusha was using "administrative resources" to influence voters, such as telling local media what events to cover or not cover, but offered the interesting speculation that Harkusha (number 4 on the Lytvyn Bloc's parliamentary list) had been brought back as governor primarily to prevent Bloc Yuliya Tymoshenko from making inroads at OU-PSD's expense. (Note. Some political analysts in Kyiv saw Harkushka's nomination as Yushchenko signaling Lytvyn that he would like the former Rada Speaker to join a coalition with OU-PSD should the Lytvyn Bloc win seats in the new Rada. End note.)

Russian Influence

¶9. (U) A second major local controversy was the ownership of the Black Sea Shipyard. In September 2003, Russian businessmen and brothers Igor and Oleg Churkin, through their ownership of the Mykolayiv Small-Tonnage Shipyard, were the winning bidders, with an offer of US \$24.3 million, for a 90.25% stake in the Black Sea Shipyard. On July 26, the State Property Fund of Ukraine won a ruling in the Kyiv Economic Court in favor of its petition to invalidate the sale on the basis of violations that took place during the privatization process. The Churkin brothers immediately appealed the ruling. According to press reports, Mykolayiv Small-Tonnage Shipyard subsequently sold 60.14% of shares in the Black Sea Shipyard to Shipping Technology Limited (Canada) in January 2007. Further muddying the waters, Syrian businessman Hares Youssef, formerly an advisor to President Yushchenko, claimed that he owned a 25% stake in the shipyard, with his partners controlling another 12.5% share. He told the media that the Churkin brothers had reneged on an offer to sell him additional shares. In 2005-2006, the Black Sea Shipyard failed to build any ships.

¶10. (U) On August 3, a group of unidentified armed men occupied the grounds of the Black Sea Shipyard and reinstated former Chairman of the Board Oleksandr Sahaidakov. Press reports alleged that another Russian businessman, Vadim Novinsky, was behind the forcible attempt to gain control of the shipyard and was in cahoots with Petro Poroshenko in the confiscation of the shipyard. (Note: Novinsky this week has been in the news, as his Smart Group announced a merger of his iron ore and steel assets with those of Ukrainian oligarch Rinat Akhmetov.) Oblast governor Harkusha announced that Sahaidakov's reinstatement was the first move in returning the shipyard to state ownership.

¶11. (U) Although the latest census recorded that ethnic Ukrainians made up 74% of the oblast's population and Russians 19%, BYuT's Zabzalyuk claimed that the oblast had a significant segment of voters who had resettled in Mykolayiv from the Urals and central Russia regions to work in the shipyards, including 94,000 pensioners of the Black Sea Shipyard. While not impressed by the power struggle over ownership of the Black Sea Shipyard, these voters would respond favorably to Regions' attempt to bring back Ukraine's multi-vector foreign policy and to strengthen ties with Russia. In fact, however, Zabzalyuk accused Regions of seeking only to facilitate cooperation between Russian and Ukrainian oligarchs, who held their business interests, and not the national interests of either country, paramount. CVU's Mykhailovsky disputed the accuracy of the census

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statistics on ethnic composition. He said that, as the son of a military officer, he had been born in Ukraine and recorded as a Ukrainian, while his two brothers were listed as Russian, although his entire family was ethnic Russian. He also noted that the census results were based on self-reporting of ethnic origin. Despite this, Mykhailovsky said every 3rd or 4th resident of Mykolayiv had relatives in Russia.

112. (U) Despite his fears of election fraud, Zabzalyuk said BYuT planned to highlight Regions' failure to fulfill its pledge to raise living standards immediately. He said Regions' attempts to establish a NATO referendum was an effort to focus on a side issue to distract voters from Regions' failure to deliver on the pledge. BYuT would work to keep voters focused on the immediate economic issues and stress that closer relations with Western Europe was the key to greater economic development.

113. (U) Without knowing the specifics of our conversation but evidently aware of Zabzalyuk's platform, Regions' Falko spiritedly presented his counter-arguments. His party was well organized in the oblast, with branches in all districts and its representatives on all District Election Commissions.

Although Regions did not agree with how the parliamentary elections had been brought about, Regions was prepared to run. Regions' political opponents tried to blame the party for everything, including defacement of campaign posters with paint, a charge that Falko ridiculed as out of keeping with Regions' sense of professionalism.

114. (U) Falko continued that Regions' platform addressed the core needs of the electorate -- higher salaries, quality education for each child, and above all fears about efforts to tear the country apart. Regions was also responding to concerns about the language issue and veterans' concerns about NATO. Rukomanov chimed in that its record since 2006 had demonstrated that Regions was a capable force with the potential to fulfill its promises. During campaign stops in the villages, voters expressed their disappointment with the "radical positions" of the opposition BYuT and OU-PSD. They frequently asked why Regions' leadership had agreed to the elections. Regions' representatives found it difficult to answer, but explained that the decision to hold elections had been a political agreement among leaders to prevent further clashes between Orange and Blue forces.

115. (U) Smirnov said voter apathy was a problem, with the possibility that the new requirement of a 50% voter turn-out (nationally and not just in the oblast) might not be reached. Local voters were more concerned about natural disasters that had occurred in the oblast, particularly the drought that led to a poor harvest, and so were relatively uninterested in the elections. (Rukomanov noted that the 47% of voters located in rural districts had been hard hit by natural disasters and described some of the steps Regions had taken to alleviate their impact. The disasters included floods, hail, and a landslide.) Secondly, local voters were upset by the process that had led to scheduling of the elections, which they felt devalued the choices they had made in 2006. Thirdly, Smirnov argued that opposing political parties would try to lower turn-out to give them a basis to invalidate the elections; Rukomanov noted that the Socialist Party and Nataliya Vitrenko's Progressive Socialists had issued calls for election boycotts.

Fears of Election Fraud

116. (U) Politicians of all stripes and CVU's representatives emphasized their fears concerning the possibility of election fraud and called on the international community to send the maximum number of observers to Mykolayiv. Zabzalyuk claimed Regions financier Rinat Akhmetov had allocated U.S. \$2,000 for each polling station to bribe polling station staff. He said the only way to counter the bribery would be to replace all polling station commission members just before the election. Falko said Regions would run a fair campaign, but he expected its opposition to play dirty in order then to file suits to overturn election results.

117. (U) CVU's Mykhailovsky spent most of our meeting detailing the various indicators and ways that fraud could take place. First, ambiguities in the electoral law created potential loopholes that could be exploited. In addition, he

said Party of Regions and BYuT had formed special units of

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hooligans to disrupt the voting process. He had seen BYuT's unit in action when it deployed to provide security for Tymoshenko's visit to the oblast. Third, electoral commission members could be bribed to falsify the vote count, when electoral fraud was easiest to commit. Mykhailovsky also cited instances when political parties sought to "bribe" voters. When we countered that distribution of free gifts or services did not constitute bribery unless provided in exchange for a particular vote, Mykhailovsky said the Socialist Party had given voters 25 hryvnia (about \$5) for signing a "contract" to vote in a certain way. (We have heard of similar incidents elsewhere.) Finally, he said local governments appeared to be using administrative resources to disadvantage some parties, and noted that Harkusha's shady past lent credence to these reports.

¶18. (U) Visit Embassy Kyiv's classified website:

www.state.sgov.gov/p/eur/kiev.

Taylor